Utah Labor Market Analysis—March 2012

- Utah's employment continues to grow at one of the better paces of any state in the nation—up 2.3 percent. But even with that, this growth is still below Utah's long-term yearly average of 3.1 percent and signals that the economy is not yet firing on all cylinders.

- Utah's flow of employment growth reveals that employment expansion appears to be hitting a stort-term ceiling. Following a pattern of increasing employment gains spanning 18 months from the recession's bottom, the past four months have seen the growth rate top out and hold in the mid two-percent range.

- The unemployment rate is largely unchanged over the past three months at 5.8 percent. That rate is down from the 7.1 percent level of a year ago, but the improvement in the unemployment rate is overstating the improvement in the labor market. Job gains are having a positive impact, but a sizeable portion of this unemployment rate decline is the result of many discouraged people leaving the labor force. (The active labor force is 5,000 below the level of a year ago while those of labor force age have increased.)

- Utah's current rate of employment growth in the mid two-percent range is anticipated to hold through much of the remainder of 2012. High gasoline prices are part of the stalling process. Also, the Utah economy has expanded about as far as it can currently go on its own. To move to a higher level of employment growth, the national economy will have to show added improvement and, therefore, make its contribution to Utah's economy. A revived housing market is also needed to move Utah growth to a higher level, and that is not anticipated for 2012. Also, high levels of in-migration must also return as part of its role in providing economic stimulation.

The Utah economy grew by 2.3 percent over the past 12 months, a gain of 27,400 jobs. That level of employment growth has held constant for the past four months instead of increasing, suggesting that the Utah economy is now bumping up against a growth ceiling. It is anticipated this is a temporary ceiling and that Utah will eventually break through to higher levels of growth, but that may not occur until the early months of 2013.

The growth that has occurred over the past 18 months since the Utah economy hit its recession bottom is largely a "catch-up" phase in response to the severe employment cuts during, and immediately after, the recession. There are arguments for the economy having reacted too aggressively to the recession's onset with excessive job cuts and that the recent job gains and accelerating growth were merely the recapturing of those job cuts. The stalling of the job growth rate in recent months suggests this catch-up has run its course. Now Utah needs additional factors to step forward and help keep this growth momentum going. Those factors are currently not in place.

Instead, there are still some headwinds working against the economy. One is rising gasoline prices. These act like a tax increase in that gasoline and its consumption are very pervasive throughout the economy, whether it is individual consumption for cars and trucks, or the added costs of moving goods to consumers via trains, planes, and trucks.

Another headwind is the United States economy. It needs to rise to a higher level of consumption and activity to give Utah a trickle down boost. That is not happening to any significant degree right now and is not expected to do so until maybe later this year. The Utah economy has done the best it can on its own and is currently performing better than the national economy—a position that Utah normally takes—but Utah still is tethered to national trends. Therefore, the entire national economy will need to move to a higher plane before the Utah economy can make its own move upward.

A reviving home-building market is also needed in Utah to help push growth to a higher plane. Again, that is not expected to occur in 2012. After a five-year slide, the Utah housing market does appear to be reaching a bottom or approaching a turning point. The housing market can be a fickle variable to follow and predict. When it finally turns, it can do so rapidly and unexpectedly. So surprises can occur, but from the current vantage point, we do not believe the Utah housing market is poised for a significant and economically-contributing rebound in 2012.

The unemployment rate is a variable closely watched in the economy and is generally reliable for gauging the availability and utilization of labor in relation to the job market. It has been a good bellwether throughout most of its history. But in this recession, there are valid arguments made that it is not offering a good signal as to the underlying state of the labor force and the utilization of labor. In fact, there is a nascent movement underway within Congress to re-evaluate the unemployment rate and its definition, with the possibility of expanding the scope of who is called "unemployed" and therefore expanding the pool of labor that is included in the official unemployment rate. Time will tell whether the movement gains traction as the official unemployment rate continues to hide the idle, dormant, and discouraged workforce growth phenomenon.

Because of the growing ranks of the long-term unemployed, the expansion of the official unemployment rate would include marginally-attached workers, those who have looked for a job in the 12 months but not within the past month for the specific reason that they believed no jobs were available for them. Depending upon the state, such a move could elevate the unemployment rate by one to two percentage points.